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UNCLAS SECTION 01 OF 03 MEXICO 002859

SIPDIS

DEPT FOR DRL/AWH AND ILSCR, WHA/MEX, USDOL FOR ILAB

E.O. 12958: N/A

TAGS: [ELAB](#) [ENRG](#) [PGOV](#) [SOCI](#) [ECON](#) [PINR](#) [MX](#)

SUBJECT: UNION AND NATIONAL ELECTRIC COMPANY REACH AGREEMENT
ON PENSION REFORM

1. Summary: Mexico's state owned Federal Electricity Commission (CFE) and the Sole Union of the Electrical Workers of the Mexican Republic (SUTERM) recently signed a significant new agreement on pension reform. The agreement will appreciably reduce the CFE's mid to long term pension costs by raising employee contributions and increasing the age of retirement. Mexican President Calderon praised the reform as an historic agreement and it has been hailed in the press as example of responsible unionism. However, it has been condemned by dissidents within the SUTERM and by the country's other union electrical workers; the Mexican Electrical Workers Union (SME). This reform will undoubtedly raise individual outlays for some union members but the SUTERM believes the agreement was necessary in order to responsibly control the upward spiral in pension cost and improve the CFE's long-term financial stability. Mexico is currently in the process of attempting to reform its energy sector with the main focus of this effort centered on the petroleum industry. For its part the SUTERM would prefer that the electricity industry not be a part of the national energy debate. This pension reform agreement, which the SUTERM claims was initiated by the union itself, could be viewed as attempt to show that it can function effectively without the need for privatization or some of the other measures being contemplated to reform the petroleum industry.
End Summary.

THE NATIONAL ELECTRIC COMPANY AND ITS UNION

2. Over 97 percent of all electricity in Mexico is generated by the state owned Federal Electricity Commission (CFE). This electricity is both produced and distributed by an estimated 77,000 employees all of whom are represented by the larger of the country's two electric energy unions, the Sole Union of the Electrical Workers of the Mexican Republic (SUTERM). SUTERM workers operate in 27 of the country's 31 states. The CFE and the SUTERM have traditionally had a cooperative management/labor relationship and have worked closely together on issues related to productivity and modernization. Nevertheless, it should be noted that the SUTERM is formally linked to Mexico's former ruling party, the PRI (Institutional Revolutionary Party). The PRI is Mexico's second largest opposition party. The National Action Party (PAN) is now the party in power in Mexico and has been since 2000. The PAN is now into its second consecutive six-year presidential administration.

13. To put the SUTERM and CFE in context, it is helpful to know that Mexico,s remaining states are serviced by the estimated 40,000 members the country,s other electric energy union, the Mexican Electrical Workers Union (SME). SME members work for the government-owned Central Light and Power Company (LyFC), which distributes CFE generated electricity to some 24 million people in the Mexico City Federal District area and the larger part of four neighboring states. The SME has informal, but nevertheless widely acknowledged, ties to Mexico,s current main opposition political party, the Party of the Democratic Revolution (PRD).

THE NEED FOR PENSION REFORM

14. Until August 19 of this year the estimated 77,000 SUTERM members engaged by the CFE were all covered by a pension plan that had been fairly standard for workers employed by one of Mexico,s state-owned enterprises. These pension/retirement plans allowed for very generous payment benefits, required little (if anything) in the way of worker co-payment contributions and often allowed for retirement after a relatively small number of years of service when compared to similar jobs in the private sector. Upon retirement SUTERM workers would be paid 100 percent of their base salary on top of whatever pension benefits they might be eligible for from Mexico,s national social security system (IMSS). As a specific example of the benefits granted to SUTERM workers, prior to August 19 they were only required to contribute 1.125 percent of their base salary for their own retirement.

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15. The generous benefits paid to SUTERM members were high but still currently manageable. The problem for the CFE and, as a consequence, for the SUTERM as well, was that a number of projections indicated that by the year 2015 pension/retirement costs would start to become unmanageable and by 2030 these costs would represent a monumental financial burden for the Commission. According to one national newspaper the present retirement costs being paid by the CFE represent an additional 110 percent over and above the salary costs for current workers. One estimate calculated that in the absence of any changes retirement benefits paid out by the CFE would exceed 251 percent of salary costs for current workers by the year 2030.

SUTERM TO THE RESCUE

16. The above-mentioned cost projections were well known to the GOM, the CFE and the SUTERM and none of them disputed the validity of these figures. Consequently, labor, management and the broader GOM all agreed that the CFE needed to take corrective action or face financially destabilizing retirement costs in the relatively near term future. Given this situation, Victor Fuentes, the national Secretary General of the SUTERM, told Mission Mexico,s Labor Counselor, that the union decided it was in its own best interest be proactive on the issue of pension reform. Consequently said Fuentes, the SUTERM then took the initiative and began negotiating with the CFE on possible reforms of the company,s pension system. During the course of negotiations that lasted just over a year the SUTERM and the CFE slowly worked out the terms of what would ultimately be a significant pension reform agreement.

17. The terms of the agreement between the SUTERM and the CFE contain a number of important new elements that distinguish it from the system it will now replace. One of the key items that enabled the SUTERM to sell the agreement to the union membership was a condition that the new retirement system would only apply to workers hired after August 19, 2008 and not to current employees or retirees. The CFE hires

approximately 1000 - 1500 new employees per year. These new hires will be enrolled in a pension system that sets up individual retirement accounts that will be administered by an independent body. The retirement age for new hires will be increased by five years over that of currently employed workers. New hires will have to contribute 5 percent of their base salary toward their retirement (as compared to the 1.125 for current employees mentioned above); the CFE will contribute 7.5 percent toward each workers, retirement. Over the course of the next ten years the costs of these contributions for the workers and CFE will increase to 6.5 percent and 10 percent respectively. Both current employees and new hires will be able to receive 100 percent of whatever pension benefits they might be eligible for from Mexico,s national social security system (IMSS) of on top of their CFE provided retirement benefits.

PRAISE AND CRITICISM FOR THE NEW SYSTEM

18. Mexican President Felipe Calderon hailed the new pension reform system negotiated between the SUTERM and the CFE as a historic agreement. The agreement was broadly praised in the Mexican press which stated that this was the first time that a public service union willingly accepted an increase in the retirement age of its members; as opposed to having such an increase imposed upon them. The most common descriptions of the agreement portrayed it as a remarkable example of responsible unionism. The SUTERM was lauded almost everywhere and by almost everyone as a union capable of fairly balancing the interests of its members alongside those of the general Mexican public. This widespread praise for the SUTERM notwithstanding, not everyone was pleased with the new pension reform agreement.

19. A spokesman for Mexico,s other electrical workers union,

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the SME, described the agreement as a dangerous step backwards in workers retirement rights. The SME spokesman was extremely critical of the fact that new workers would have to pay more for their retirement benefits and he sharply criticized the idea of an independent body administering the individual retirement accounts of newly hired employees. According to the SME the phrase independent body was code for some form of private sector entity that would charge the workers for its services and seek to maximize its profits at the expense of the newly hired employees. Because of the SME,s informal links with the PRD it would probably be predisposed to uncritically accept any reform that had been praised by the PAN government of President Calderon.

110. The SME,s criticisms were echoed and fully shared by a dissident labor group among SUTERM members which calls itself the National Electrical Workers Coordination (CNE). The CNE views itself as a part of the SUTERM and for the most part works to gain control of the union from within by winning internal unions elections. Its success so far has been limited. Nevertheless, the CNE is clearly the place where the more left leaning, PRD inclined; members of the SUTERM go to voice grievances without having to actually leave the union.

COMMENT

111. Despite the criticisms of the SME and the dissidents within the SUTERM the general consensus in Mexico is that the reform agreement was a good thing. Kudos aside, the SUTERM freely acknowledges that its decision to initiate reform discussion (assuming that that is in fact what happened) was mostly a case of acting in one,s own self interest. Mexico

is currently in the process of attempting to reform its energy sector and thus far the reform discussion has centered on the national petroleum company, Pemex. Extensive public discussion has taken place involving political parties, the press, various and diverse elements of Mexican civil society and little if any of the participants in this national conversation have touched on the topic of Mexico,s electricity industry.

¶12. For its part the SUTERM would prefer that the energy debate remain focused on the Mexico,s petroleum. Although there is no way to know for sure what direction the energy reform debate will take a real concern for many segments of Mexican society is that the question of some form of privatization will eventually be enacted. The SUTERM believes that Mexico,s electricity sector can and is reforming itself without, what it sees as, the threat of privatization. Viewed in that light, its efforts to prompt reform of the CFE,s pension system was every bit as much a political act as it was act to improve the national electric company,s long term financial stability.
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